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Report on results achieved by the United Nations Capital Development Fund in 2009

Summary

The United Nations Capital Development Fund works to reduce poverty in the least developed countries by strengthening local services and increasing access to microfinance. The present annual report details its programme, management and financial performance in 2009.

In 2009 UNCDF operated in 40 of the 49 least developed countries, with a particular focus on post-crisis countries. Seventy per cent of its programme portfolio was in Africa. Local development programmes accounted for 61 per cent of the 2009 programme expenditure; microfinance for 39 per cent. The 2009 programme targets in both local development and microfinance were achieved and in some cases exceeded. While management targets were largely met, strengthening UNCDF operational effectiveness will remain a key priority.

Total contributions in 2009 amounted to $36.5 million, reflecting a slight increase in the volume of regular resources, and a decline in other resources (which had been anticipated). The overall resource outlook remains positive, especially in terms of volume and diversification of other resources. The 2009 programme expenditure amounted to $41.5 million, an increase of 12.2 per cent from 2008, and more than double the figure for 2005.

A process of internal reflection begun late in 2008 led to refined priorities for UNCDF for the period 2010-2013. They include increasing operational effectiveness, responding to the demand of least developed countries for new kinds of support, and strengthening strategic partnerships.

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I. Introduction

1. The United Nations Capital Development Fund (UNCDF) is dedicated to helping the world's least developed countries (LDCs) achieve the Millennium Development Goals (MDGs). With only five years left before the 2015 MDG deadline and many LDCs struggling to meet the targets, this mission is more relevant than ever. UNCDF works to reduce poverty in the LDCs by strengthening local services and increasing access to microfinance. In addition to MDG 1: Eradicate extreme poverty and hunger, UNCDF work directly supports MDG 3: Promote gender equality and empower women, and MDG 7: Ensure environmental sustainability.

2. UNCDF operates in 40 LDCs. Roughly 40 per cent of its programme portfolio is in countries emerging from crisis or conflict. In 2009, local development programmes accounted for 61 per cent of its programme delivery; microfinance for 39 per cent. Of the UNCDF overall portfolio, 70 per cent is in Africa; 30 per cent is in Asia and Haiti (the only LDC in the Western Hemisphere). Over 50 per cent of the clients of UNCDF-supported microfinance institutions are women, and the UNCDF/UNIFEM Gender Equitable Local Development programme, designed to ensure that capital spending by local government helps to empower women, is now fully operational in five African LDCs.

3. Over the past five years, UNCDF has moved 50 per cent of its staff out of New York, doubled its number of donors, doubled its income, and expanded its programmes from 26 to 40 LDCs. At the end of 2009, it had 127 staff members: 76 international Professional staff (including 16 Junior Professional Officers), 16 National Officers and 35 support staff. Of the 76 international Professional staff, 63 per cent were men and 37 per cent were women; 58 per cent came from developed countries and 42 per cent from developing countries. Roughly 30 staff members work at Headquarters, 10 each in UNCDF regional offices in Dakar, Johannesburg and Bangkok, and 70 at the country level.

4. The UNCDF partnership with UNDP has also grown much closer in recent years: 100 per cent of UNCDF country programmes are joint programmes with UNDP, and the new UNCDF global programmes (e.g., MicroLead; Gender Equitable Local Development) directly support key UNDP priorities, including poverty reduction, gender equality and support to crisis and post-conflict countries.

5. The present annual report documents the UNCDF programmatic, managerial and financial performance in 2009 against established targets. The performance of the organization is measured through its Strategic Results Framework, which supports the larger objectives of the UNDP Strategic Plan – specifically outcomes 5 and 6 of Goal 1: Achieving the MDGs and reducing human poverty.

6. The present report also highlights the results of an internal reflection begun late in 2008 with a view to ensuring that UNCDF can continue to keep pace with growing LDC demand for its services. The process of reflection led to refined priorities for the period 2010-2013, including increasing operational effectiveness, responding to LDC demand for new kinds of support, and strengthening strategic partnerships.

II. Programme results

A. Local development

7. There is an increasing consensus that accelerated progress on the MDGs demands increased attention to the local level. This is particularly true in many LDCs, where the majority of people still live in rural areas, and where local services are often weak or inadequate.

8. UNCDF works to strengthen local institutions that help poor people to meet their basic needs and pursue new opportunities. It focuses on local governments, encouraging public involvement, community empowerment and democratic accountability. At the national level, it supports decentralized systems and procedures designed to fully empower local authorities. Its goal is to ensure that local governments can make capital investments — in irrigation schemes, feeder roads, clinics, water supply — that are financially sustainable and respond to the needs of the poor, in ways that can be scaled up by other development partners and national Governments. UNCDF work at the local level shows considerable promise for helping LDCs adapt to new challenges, including food security and climate change.

UNCDF local development programmes

9. UNCDF local development interventions vary according to national contexts. In countries such as the Lao People's Democratic Republic, Liberia and the Democratic Republic of the Congo, where the local government system is in a relatively early stage of development, UNCDF typically works through pilot projects in a small number of districts. The objective is to build the capacity of targeted governments to manage their resources effectively, and in a manner that responds to local needs. In doing so, UNCDF helps to make the case for local governments to play an enhanced role within the national development landscape. In such cases, UNCDF support typically focuses on establishing local participatory planning processes, leading to local development plans, budgets and investment programmes.

10. UNCDF normally accompanies support to planning processes with capital investment block grants for the use of local authorities (either directly or through national authorities). Within the context of a larger UNCDF local development programme, the capital investment block grants, which typically vary in size from $50,000 to $150,000, act as a capacity-building incentive, enabling local authorities to immediately put their capital investment plans into action. This, in turn, helps to demonstrate to the citizens of a locality that, given the means, their elected officials can respond effectively to the need for a new health station, irrigation system, refurbished school or village water supply. By providing local authorities with block grants — rather than project financing — UNCDF helps to activate the larger system of local governance, and to test the relevant legislation and procedures.

11. In countries where UNCDF pilot activities have helped to make the case for an enhanced role by local governments, or where there is otherwise a strong commitment to decentralization, UNCDF works simultaneously at the local and national levels, helping to identify and address bottlenecks and shortcomings in the overall system of local governance. UNCDF focuses in particular on fiscal decentralization and national systems of public expenditure management, working to improve local government compliance with roles and responsibilities accorded under existing legislation, while in some cases still providing block grants for local capital investments to test newly introduced systems and procedures. In many instances, UNCDF is asked to help reform or improve existing legislation, or indeed UNCDF, UNDP and other partners are asked to help the Government develop and roll out entirely new national strategies for local government. Examples of countries under this category include Nepal, the United Republic of Tanzania, and Yemen.

12. Finally, in countries such as Cambodia, Malawi, Senegal and Uganda, where the system of local government is relatively well established, UNCDF is increasingly responding to requests to help strengthen the delivery of local services. In a growing number of countries, UNCDF is

also being asked to support local government strategies for economic development, for climate change adaptation, and for the decentralized delivery of social protection.

UNCDF local development and the MDGs

13. UNCDF work in local development helps to vest decision-making power directly in the hands of the authorities best placed to make critical pro-poor investment decisions. Based on citizen input, local authorities themselves decide whether to pursue the food security aspect of MDG 1: Eradicate extreme poverty and hunger, or the water and sanitation aspect of MDG 7: Ensure environmental sustainability – or both – in a given locality. In either case, UNCDF resources, as well as the resources they catalyse, help achieve the goals given highest priority by the local communities themselves. An analysis of the use of UNCDF investment funds since 2004 shows these local communities giving clear priority to economic infrastructure and food security (MDG 1: 40 per cent). Water and sanitation come next (MDG 7: 25 per cent), followed by education (MDG 2: 15 per cent) and health (MDG 4: 4 per cent). In 2009, UNCDF worked together with UNDP in preparatory activities for a new joint Global Programme in support of MDG scaling-up efforts by local governments. Resource mobilization efforts for this new programme are currently under way.

UNCDF local development in post-crisis environment

14. In post-crisis countries, UNCDF puts a particular emphasis on introducing transparent fiscal transfer systems and on building the capacity of local governments for participatory planning and budgeting procedures. In Guinea-Bissau, for example, participatory planning processes leading to the delivery of much-needed basic socio-economic infrastructure have contributed to restoring dialogue between the population, its leaders, and local authorities. In Timor-Leste, Nepal and the Solomon Islands, UNCDF is creating an environment where local investments and institution building are helping to re-establish the relationship between the citizens and the State at the local level, and therefore contributing to the reintegration of displaced populations. Recent evaluations suggested that UNCDF work at the local level in the Lao People's Democratic Republic and Haiti has helped to build social cohesion.

UNCDF local development and food security

15. In 2009 UNCDF, in close partnership with the Belgian Fund for Food Security (formerly known as the Belgian Survival Fund), began new food security programmes in Benin and the Niger, scaling up replicable interventions from previous local development programmes. In Eritrea, substantial gains in terms of food security were observed, with 30 per cent of the entire investment portfolio dedicated to infrastructure related to food security. One of the results was an annual increase of available food supply of three months.

UNCDF local development and gender

16. The UNCDF and UNIFEM Gender Equitable Local Development programme, now operational in the United Republic of Tanzania, Mozambique, Senegal, Rwanda and Sierra Leone, is designed to ensure that capital investments by local authorities help to empower women. This implies a strong link between UNCDF local development work and MDG 3: Promote gender equality and empower women. UNCDF has received several expressions of donor interest to expand the programme beyond the current pilot phase.

17. Table 1 below summarizes UNCDF 2009 results in local development.

Table 1

2009 results in local development

UNDP strategic plan outcome 1.5: Strengthened capacities of local governments and other stakeholders to foster participatory local development and support achieving the MDGs.					
Local government capacity and accountability					
Outcome indicator 1: Number of UNDP-supported local governments with plans and budgets reflecting a sustainably pro-poor focus on public services, and/or actions for economic infrastructure investments and improving the local business enabling environment		**Plan**	**Actual**	**%**	**Assessment of performance**
Regional portfolio:	Asia and Pacific	[illegible]	[illegible]	[illegible]	Fully fulfilled
	South East Africa	[illegible]	[illegible]	[illegible]	Fully fulfilled
	West Africa	[illegible]	[illegible]	[illegible]	Fully fulfilled
Total		**[illegible]**	**[illegible]**	**[illegible]**	**Fully fulfilled**
Outcome indicator 2: Number of UNDP-supported local governments with plans and budgets implemented in a timely and efficient manner (e.g., deviation < 20%)					
Regional portfolio:	Asia and Pacific	[illegible]	[illegible]	[illegible]	Fully fulfilled
	South East Africa	[illegible]	[illegible]	[illegible]	Not applicable
	West Africa	[illegible]	[illegible]	[illegible]	Partially achieved
Total		**[illegible]**	**[illegible]**	**[illegible]**	**Fully achieved**
Outcome indicator 3: Number of UNDP-supported local governments where arrangements for greater public involvement and transparency in planning/budgeting, procurement, implementation and monitoring of improved service delivery (please consult the production of local consultative bodies has been obtained)					
Regional portfolio:	Asia and Pacific	[illegible]	[illegible]	[illegible]	Fully achieved
	South East Africa	[illegible]	[illegible]	[illegible]	Partially achieved
	West Africa	[illegible]	[illegible]	[illegible]	Fully achieved
Total		**[illegible]**	**[illegible]**	**[illegible]**	**Fully achieved**
Outcome indicator 4: Number of UNDP-supported local governments with arrangements set in place to increase communications and transparency related (e.g. plan implementation maps, etc. being reported publicly)					
Regional portfolio:	Asia and Pacific	[illegible]	[illegible]	[illegible]	Fully achieved
	South East Africa	[illegible]	[illegible]	[illegible]	Partially achieved
	West Africa	[illegible]	[illegible]	[illegible]	Partially achieved
Total		**[illegible]**	**[illegible]**	**[illegible]**	**Fully achieved**
National policy support					
Outcome indicator 1: Number of countries where [illegible] officially [illegible] pro-poor macroeconomic policy, expenditure management related procedures and other innovations for national use, and [illegible] policy, legislation, regulations, and/or monitoring and evaluation frameworks		**Plan**	**Actual**	**%**	**Assessment of performance**
Regional portfolio:	Asia and Pacific	[illegible]	[illegible]	[illegible]	Fully achieved
	South East Africa	[illegible]	[illegible]	[illegible]	Fully achieved
	West Africa	[illegible]	[illegible]	[illegible]	Fully achieved
Total		**[illegible]**	**[illegible]**	**[illegible]**	**Fully achieved**
Outcome indicator 2: Number of countries where UNDP-supported local governments have received performance-based					

grants				
Regional portfolio: Asia and Pacific*	2	1	50	Partially achieved
Total	2	1	50	Partially achieved
Explanation				
Outcome indicator 7: Number of countries where donors, collaboratively adopt UNCDF-supported local development strategies or interventions in their own programmes, or subscribe to and support a UNCDF-supported joint programme	Plan	Actual	%	Assessment of performance
Regional portfolio: Asia and Pacific	4	4	100	Fully achieved
South East Africa	4	4	100	Fully achieved
West Africa	4	3	60	Partially achieved
Total	12	11	100	Fully achieved

Performance assessment scores: Fully achieved: 75-100 per cent; Partially achieved: 50-74 per cent; Not satisfactory: <50 per cent.

* Only the Asia and Pacific region established milestones for 2004.

Enhancing local government capacity and accountability

34. Efforts to build local government capacity, when financed by UNCDF in the context of UNCDF joint programmes, were largely successful in 2004. Of targeted local governments, 87 per cent were able to develop effective plans and budgets for pro-poor capital investments (Outcome indicator 5). A high percentage of total targeted local authorities (76 per cent) demonstrated capacity to implement plans and budgets in a timely and efficient manner, as measured by the difference between planned activities and budgets and actual implementation and expenditures (Outcome indicator 2). UNCDF technical support often yields results that become tangible in the short term. A further indication of increased local government capacity is the degree to which some local governments were able to mobilize their own revenues. In Burundi, for example, targeted local authorities realized an increase of 31 per cent in local source revenues. Progress was also seen in Bangladesh, where citizen-to-government fora have been shaping an areas where local governments have demonstrated effectiveness in service delivery.

35. Results were not, however, consistent across regions. For example, in Southern and Eastern Africa, significant challenges remain for enhancing the performance of local governments in implementation targeted governments in the Asia-Pacific region, on the other hand, have shown a particularly strong performance. In Southern and Eastern Africa several country programmes experienced prolonged delays in the initiation of field activities in 2004, underscoring the downfall in urgency for 2005.

36. Significant results were achieved in the area of accountability and transparency (Outcome indicators 3 and 4), although variations in performance across regions continued to be observed. In West Africa, over 60 per cent of UNCDF-supported local governments established arrangements for greater public involvement and transparency in planning/budgeting processes, implementation and monitoring, just over 40 per cent of targeted local governments in the region, however, showed significant improvements in communications and the dissemination of information to local constituents. In the Asia-Pacific region, most targets were fully achieved or even exceeded expectations. In Bangladesh, for example, UNCDF supported the adoption of public disclosure practices in the management of capital block grants, including through the use of local media to announce actual investment allocations.

National policy impact

37. Results were strong across regions in the area of formal adoption/mainstreaming of Public Expenditure Management procedures and other innovations (Outcome indicator 7), as

well as on reforms that did not directly engage on fiscal policies. A 2009 example of the UNCDF contribution to policy reform in Timor-Leste (one of the seven countries in the Asia Pacific region for which policy support was provided during the reporting period). UNCDF supported the drafting of the Law on Administrative and Territorial Divisions, which was eventually approved by the National Assembly in June 2009. In the Democratic Republic of the Congo, UNCDF helped to develop a National Decentralization Framework that laid out the essential policy foundations for a functioning system of local governance throughout the country. In the area of fiscal policy, support in Bangladesh showed tangible results towards the institutionalization of performance-based grants to local governments. Outcome indicator 4.1 for 2010 UNCDF will continue paying particular attention to factors that may constrain the pace of such reforms in relevant programme countries.

Replication and scaling-up

23. In all that it does, UNCDF seeks to "pave the way" for others. UNCDF consistently strives to pilot interventions, systems and procedures that can be taken to scale by larger development partners, and replicated at the national level by Governments. In 2009 expected results for replication and scaling-up (Outcome indicator 5) were largely achieved, with significant support from key partners in a number of programmes across regions. In Ethiopia, for instance, the World Bank supported the scaling-up of local service mechanisms piloted by UNCDF in the provision of facilities, and has committed $200 million to the efforts of the central Government to replicate nationwide public expenditure management systems and procedures that were developed with UNCDF support. Moreover, the UNCDF local development programme in Ethiopia has helped pave the way for a new United Nations Joint Programme in partnership with UNDP, UNFPA, WFP and UNEP. The programme will promote local development for the achievement of MDGs in the country's emerging regions, opening up significant new opportunities for scale-up and replication in 2010. UNCDF has successfully developed a partnership with the African Development Bank for scaling up proven interventions. In a new joint programme on capacity-building with the Malian Government, UNDP and the DGIS Netherlands Development Organization, among other partners, will also seek to leverage UNCDF acquired experience to promote MDG achievement in the 166 municipalities most vulnerable to food insecurity.

Local development evaluations in 2009

24. Evaluations in 2009 showed good results for local government capacity-building in the Niger and Mauritania, for instance, evaluators concluded that local authorities had gained solid understanding of procedures for undertaking public investment, largely because they had implemented UNCDF-supported block grants channelled through national treasury systems. In the area of accountability and transparency, results were also positive in Guinea, preliminary evaluation findings indicated that UNCDF support was significant in promoting the active engagement of local communities in local planning and implementation, which not only ensured a greater degree of sustainability of local government investments, but greater cost-effectiveness in project implementation.

25. In the policy impact and replication, findings were more mixed. In the Niger and Mauritania, evaluators concluded that local development programmes were effectively acting as catalysts for the replication of decentralization initiatives nationwide. In Guinea, on the other hand, evaluators highlighted the challenges of ensuring policy impact given prevailing trends in national governance, and in the case of implementation of existing policy legislation/instruments, on decentralization.

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[1] UNCDF Results-at-a-Glance and Management Response, Evaluation of Multisectoral Approaches, Government of Sweden, 2009.

B. Microfinance

21. Microfinance empowers poor people and small businesses to pursue economic opportunities, and offers them protection against life's inevitable setbacks. In the way it directly contributes to reducing poverty (MDG 1), it also helps to promote gender equality and empower women (MDG 3), as the majority of clients of microfinance institutions are often women. Yet in the LDC s 90 per cent of people lack access to formal financial services.

22. UNCDF works to help more households and small businesses in the LDC s gain access to microcredit, savings, insurance and remittances. It pursues an "inclusive finance" approach, designed to ensure that a range of financial products are available to all segments of society, at reasonable cost and on a sustainable basis. UNCDF was an early supporter of some of today's most successful developing country-based microfinance institutions. Its ability to provide risk capital directly to the private sector in the form of grants and loans unique in the United Nations system helps bring microfinance to underserved markets and spur new innovations (e.g., mobile phone banking). UNCDF continues to be ranked in the top tier in the "Smartfish Index" of overall effectiveness in microfinance.

UNCDF microfinance programmes

23. Within a given country, UNCDF begins with a sector assessment of opportunities and constraints at the macro (policy), meso (support infrastructure) and retail (financial service providers) levels, combined with a gap analysis of areas not supported by other development partners. This leads to a tailored programme of support designed to seize opportunities, remove constraints and fill gaps to build an inclusive financial sector. In all the LDC s where it has a microfinance country programme currently [illegible], UNCDF provides support through joint programmes with UNDP.

Table 2

UNDP results in microfinance

UNDP strategic plan outcome 1.4: Policies, strategies and partnerships established to promote public-private sector collaboration and private sector and market development that benefits the poor and ensures that low-income households and small enterprises have access to a broad range of financial and legal services				
Thematic 1 – conducive policy environment in support of building an inclusive financial sector				
	Plan	**Actual**	**%**	**Assessment of performance**
Outcome indicator 1: Increased capacity of government to support conducive policy environment for an inclusive financial sector	21	14	67%	Fully achieved
Outcome indicator 2: Increased capacity of regulatory and supervisory authorities to develop conducive legal framework for an inclusive financial sector	14	7	50%	Fully achieved
Outcome indicator 3: Nationally owned governance and donor coordination in support of building inclusive financial sectors	14	14	100%	Fully achieved
Thematic 2 – supporting delivery infrastructure for delivery of financial services to low-income households				
Outcome indicator 4: Local financial service provider networks in place	28	19	68%	Fully achieved
Outcome indicator 5: Increased visibility, microfinance information exchange market of UNCDF-supported financial institutions	28	7	25%	Partly achieved

[illegible]

Outcome indicator 6: Increased transparency (audit) of UNCDF-supported financial institutions	65	60	92%	Fully achieved
Retail level: financial service providers extend outreach to poor clients				
Outcome indicator 7: Increased sustainability of UNCDF-supported financial intermediaries serving low-income households	65	44	68%	Partly achieved
Outcome indicator 8: Increased efficiency of UNCDF-supported financial intermediaries serving low-income households	65	29	45%	Below expectations
Outcome indicator 9: Number of active clients	2,449,791	2,950,565	104%	Fully achieved
Outcome indicator 10: Percentage of women	50%	53%	106%	Fully achieved

28. In 2009, UNCDF pursued an inclusive finance sector development approach in 22 LDCs, within reach of its objective of 25 countries by 2010. Three new programmes were formally approved in 2009, and three second-phase programmes were also approved. Additional formulations in 2009 resulted in three new programmes scheduled for approval in early 2010. The number of LDCs supported in their national efforts to build an inclusive financial sector includes 13 in sub-Saharan Africa, 9 in Asia (5 LDCs covered by a joint UNDP/ UNCDF regional programme for Pacific Islands), and 1 in the Arab States. None of the LDCs currently supported are post-conflict countries. The number of financial service providers supported almost doubled, from 37 to 65, in 2009 as programmes became fully operational and approved local investments.

29. Almost all countries have with support from UNCDF increased the capacity of Governments to support a conducive policy environment for inclusive finance (Outcome indicators 1-3). In addition, 93 per cent (15 of 16) of regulatory and supervisory authorities have increased capacity to develop a conducive legal and regulatory framework. Through UNCDF, the Swedish International Development Cooperation Agency and the Consultative Group to Assist the Poor joint support to the Banque Centrale des Etats de l'Afrique de l'Ouest "Projet de Finance Decentralisée", UNCDF has had an impact on the regulatory framework in eight West African countries. In addition, in 95 per cent of the countries, Governments and development partners are implementing nationally owned strategies or action plans to develop an inclusive financial sector. In line with the Paris Declaration on Aid Effectiveness, UNCDF works to support national ownership and engage all the development partners in the design process. This strong achievement at the macro-level underlines the impact of UNCDF work at the policy level in all countries where it has promoted the inclusive financial sector approach.

30. Performance remained strong in terms of the local financial sector supporting infrastructure (Outcome indicators 4-6). All the countries assisted have a supporting industry infrastructure primarily in the form of national associations and networks of financial service providers. In addition, 91 per cent of the financial service providers supported by UNCDF belong to a national association or network. These two results also clearly show the recognition by financial service providers of the importance of collaboration for purposes of advocacy, standard setting and knowledge management. In 11 LDCs, UNCDF provided direct support to strengthen the institutional capacities of the national associations, either in the form of grants or by ensuring their inclusion in training activities and the elaboration of national strategies.

31. In 2009, 57 per cent of UNCDF-supported financial service providers were reporting to the MIX Market (www.themix.org), the microfinance industry standard database for capturing the performance of financial service providers. Although the number of providers reporting to the MIX nearly doubled, increasing from 20 in 2008 to 37 in 2009, the percentage stayed almost the same as many new, young financial service providers were added to the UNCDF portfolio. Some of the weaker financial service providers have difficulty posting their data

and will require initial UNCDF support to do so. Ninety-two per cent (down from 100 per cent in 2008) of financial service providers had industry standard audits. Follow-up will be made with financial service providers who have not complied to regain the 100 per cent target.

32. Results on sustainability of financial service providers (Outcome indicator 7) decreased from 76 per cent in 2007, to 73 per cent in 2008, to 68 per cent in 2009. However, the number of financial service providers achieving profitability doubled from 7 in 2008 to 15 in 2009, confirming that UNCDF is both taking a risk by investing in younger, unproven institutions and helping them achieve sustainability.[1] The number of financial service providers supported by UNCDF that are meeting the international standard of strong portfolio quality (portfolio at risk at 30 days of less than 5 per cent) increased from 17 to 29, although the percentage (45 per cent) stayed the same with the addition of many young financial service providers to the portfolio. In addition, the effect on local economies of the global financial crisis has affected both the profitability and portfolio quality of many financial service providers globally. Stronger portfolio monitoring and building repayment capacity will continue to be a key focus of UNCDF technical support in 2010.

33. In terms of outreach, i.e., the number of people with improved access to financial services (Outcome indicators 7-8), the performance fully met expectations. In 2009, 2,550,565 active clients were being served by 65 financial service providers supported through UNCDF and UNDP joint programmes to build inclusive financial sectors. This result achieved slightly more than the target of 2,448,781 clients. Of these clients, 53 percent were women, slightly exceeding the global target that at least 50 per cent of clients should be women. Given that households on average comprise five persons, this represents an impact on the lives of 12,752,825 persons.

34. Outreach has shown steady annual increases:

Year	2004	2005	2006	2007	2008	2009
Number of active clients	179,019	438,272	616,035	1,171,306	1,768,931	2,550,565

35. The 2009 target for outreach was met because several programmes exceeded their targets for the year. These included the programmes in the Africa region (Building Inclusive Financial Sectors in Africa), the Pacific sub-region, and the new global MicroLead programme, which is supporting entry of microfinance market leaders in the LDCs where access to financial services is most limited. UNCDF expects the upward trend in outreach to continue in 2010.

UNCDF microfinance in post-crisis environments

36. UNCDF microfinance programmes are currently active in nine post-crisis/conflict environments. UNCDF is normally first on the ground in such environments, as experience has demonstrated activities can start as soon as basic security is established. An evaluation of the first UNCDF sector programme in a post-conflict setting, Sierra Leone, noted "impressive" results, particularly considering the difficulty of reaching rural areas of the country. The continued need for capacity-building was also highlighted, given the prolonged nature of the conflict and its disruption of the country's education system and human capacities.

[1] Five to seven years is considered a reasonable span of time for a financial service provider to achieve financial sustainability (profitability).

Microfinance evaluations in 2009

37. UNCDF Building Inclusive Financial Sectors in Africa regional programme was evaluated in 2009, including three country evaluations (Liberia, Madagascar, and Togo). The evaluation confirmed that UNCDF is viewed by host countries as an 'honest broker' in microfinance, as well as UNCDF value as "a first-mover" in LDCs, including in many post-crisis environments. Key strengths include the UNCDF record of investing in emerging financial service providers through a transparent, thorough process, with no sign of politicization. UNCDF use of performance-based funding contracts with financial service providers was also deemed effective. Key recommendations included strengthening links to partners with proven expertise at the policy and meso-levels, and strengthening the local investment committee processes, including the ability of investment committees to support the development of new products and services.

UNCDF microfinance thematic initiatives

38. In addition to its sector-based programmes and the new MicroLead global programme, UNCDF actively participated to two thematic initiatives, in the areas of remittances and micro-insurance, respectively. Specifically, UNCDF supported the expanding activities of the multi-donor Funding Facility for Remittances, backed by a range of institutions, including UNCDF,[4] and managed by the International Fund for Agricultural Development. In 2009, the Facility launched a third call for proposals, which led to the approval of 20 new grants (including 6 in Latin America funded with Inter-American Development Bank resources), many of them based on partnerships between microfinance institutions and mobile network operators with a view to using technology-based solutions to increase outreach in rural areas and link remittances to saving accounts. On micro-insurance, UNCDF in cooperation with ILO developed a pilot operation in a second country, Zambia (following the initial pilot in Ethiopia), which led to the adoption of a national action-plan framework for the promotion of micro-insurance services in that country.

UNCDF microfinance and climate change

39. UNCDF also engaged in an active dialogue with the Energy and Environment Group at UNDP, as well as with external stakeholders, on the theme of climate change and microfinance, in order to lay the ground for the development of a full-fledged strategy and a new global UNCDF product in that area for 2010.

UNCDF microfinance and UNDP

40. Lastly, it is useful to mention the results related to the UNCDF role as the policy and technical adviser to UNDP, including in non–LDCs, to ensure consistent application of best microfinance practices. In 2009, UNCDF supported UNDP inclusive finance activities in 14 countries where UNCDF did not have its own programmes, including13non–LDCs.

III. Management results

41. In 2009 UNCDF continued a series of measures to strengthen its internal structures and systems in order to better respond to the increasing demand for its services. The operational strengthening process called "UNCDF Project 2010" was initiated in 2008 and will unfold until the end of 2010. It is based on an operational scan conducted by an external consultant in 2008, an audit carried out at the request of UNCDF management by the UNDP Office of Audit and Investigations in 2009, and a series of internal workshops. The audit produced 23 recommendations. Management committed to implementing all the recommendations and is on track to do so within the established deadlines.

[4] European Commission, Luxembourg, Spain, CGAP, IADB.

42. As part of the overall strengthening exercise, UNCDF has streamlined its organizational structure, with rationalized functions and reporting lines at the regional level. Heads for the three Regional Offices (Bangkok, Dakar and Johannesburg) have been designated and various authorities delegated in line with the internal control framework of the organization. Performance management has been strengthened through the establishment of a Corporate Management Plan, and related accountability tools. Systems are being put in place to monitor and follow-up more effectively on the recommendations of project audits and evaluations.

43. Operational integration with UNDP has been prioritized, with a view to avoiding redundancies and maximizing efficiency. Formal UNCDF policies and procedures have been refocused exclusively on those aspects of UNCDF operations that differ significantly from those of UNDP (e.g., procedures around block grants and loans); for all other aspects, the procedures outlined in the UNDP Programme and operations policies and procedures will now apply to UNCDF.

44. The table below summarizes UNCDF management results for 2009.

Table 3

2009 management results

Perspective	Strategic objective	Indicator	2008 result	2009 target	2009 result
Client satisfaction	Expand geographically to more LDCs, including post-conflict LDCs	LDCs with UNCDF programmes	38 LDCs	40 LDCs	40 LDCs
	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with timeliness and relevance of UNCDF services in its respective practice lines	-	70%	60.6%*
Internal efficiency	Harmonize UNCDF and UNDP procedures to avoid overlaps and redundancies	UNCDF operations and procedures harmonized with those of UNDP	-	UNCDF Operations Manual fully harmonized with UNDP operations policies and procedures	Achieved
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	31 LDCs	32 LDCs	32 LDCs
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	15.5 %**	15%	15.5 %
Internal efficiency	Strengthen 'people management'	Staff perception*	75 %	75%	68.8 %***
	Implementation of the audit recommendations of the Office of Audit and Investigation		n/a	13	13

Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$23.5 million	$ 25 million	$19.7 million****
		Other resources mobilized	$26.6 million	$20 million	$ 16.8 million
	Ensure delivery against plan	Delivery against approved annual spending limits	70 %	80 %	78%

* From the Headquarters Products and Services Survey. The UNDP/UNCDF/UNIFEM/UNV corporate average was 60%.

** Ratio of support cost over total delivery re-calculated for 2008 according to the UNDP methodology.

***From Global Staff Survey. The UNDP/UNCDF/UNIFEM/UNV average was 66%.

**** Includes $1 million from UNDP programme funds; 2008 figure of $23.5 million includes $6 million from UNDP programme funds.

45. Some of the 2009 results captured above are process indicators, relating to the Project 2010 exercise (e.g., implementation of Office of Audit and Investigation audit recommendations; harmonization of procedures with UNDP). Others, such as delivery against approved annual spending limits, which stands at 78 per cent, already show signs that UNCDF internal efficiency is improving. Staff perception, while above the UNDP corporate average, is an indicator that will continue to be monitored closely to ensure that efficiency gains do not occur at the expense of staff morale.

Growth of UNCDF

46. Table 4 below highlights UNCDF growth during the recent period. While both practice areas are expected to continue growing in response to continued strong demand from within existing programme countries, UNCDF will not begin operating in new programme countries until it reaches the target of $25 million in core/un-earmarked funding per year.

Table 4

Growth in UNCDF activities, 2005 – 2009

	2005	2006	2007	2008	2009		
					Plan	Actual	%
Number of programme countries	26	28	31	37	45	40	87
Growth of local development activities							
Number of country programmes	23	23	29	34	37	33	89
Number of local governments	493	437	518	649	850	810	95
Growth of microfinance activities							
Number of programme countries	15	18	20	20	25	22	88
Number of financial service providers	19	28	29	37	45	65	144
Number of active clients (m)	0.4	0.6	1.6	1.7	2.4*	2.5	128

*Target adjusted upward from 2.0 million based on approval of new programming.

IV. Financial analysis

47. Total contributions to UNCDF amounted to $36.5 million in 2009, consisting of $19.7 million in regular resources, including a $1 million programme contribution from UNDP, and $16.8 million in other resources. The volume of regular resources grew by $1 million in 2009. Austria and Luxembourg increased their contributions and multi-year commitments were secured from three large contributors – Belgium, Norway and Spain. Sweden decreased its contribution in 2009 but remained the largest contributor to UNCDF regular resources.

48. Other resources decreased from $26.6 million in 2008 to $16.5 million in 2009. This was anticipated, as a particularly large contribution received from the Bill and Melinda Gates Foundation late in -2008 was intended for both 2008 and 2009. Had this contribution been allocated in equal instalments, other resources would have seen an increase of $2 million in 2009. Overall, the outlook for other resources remains positive in 2010 and beyond.

49. UNCDF continues to be overly dependent on too few donors to regular resources (UNCDF six largest donors contribute 95 per cent of regular resources). Continuing to diversify and expand the Regular Resource base remains a top priority for the organization. The sources of other resources, on the other hand, are becoming increasingly diverse. In addition to bilateral and multilateral cooperation, UNCDF enjoys support from development banks, foundations, the private sector, NGOs, One UN Funds, and the MDG Achievement Fund. In total, UNCDF received support from 27 donors in 2009.

50. Total expenditures in 2009 were $49.1 million. Programme expenditures increased by 12.2 per cent to $41.5 million from $37.0 million in 2008. The bulk of the increase (35 per cent) was in other resources expenditures. UNCDF support costs increased by 26 per cent to $7.6 million, owing to reimbursement of outstanding Service Level Agreements to UNDP, and to additional staff costs.

Fund balances at the end of 2009 were approximately $53 million. UNCDF also has operational reserves of approximately $26 million.

Table 5

Expenditure trends 2003-2009

(*in millions of US dollars*)

Expenditures	2003	2004	2005	2006	2007	2008	2009
Programme expenditures	21.1	22.9	19.2	25.2	28.7	37.0	41.5
- of which regular resources	16.3	14.9	11.6	16.8	19.0	22.6*	22.2*
- of which other resources	4.8	8.0	7.6	8.4	9.7	14.4	19.3
UNCDF support	6.2	5.3	6.7	4.6	5.4	6.8	7.6
Total	**27.3**	**28.2**	**25.9**	**29.8**	**34.1**	**43.8**	**49.1**

Source: Financial statements for UNCDF as of 31 December 2009 before closing of accounts.

*Expenditures in 2008 and 2009 include respectively $6 million and $1 million expended against UNDP programme contributions to UNCDF. Both years include approximately $4.7 million expended against UNDP biennial support budget.

51. In addition to regular expenditures, UNCDF disbursed five loans to financial services providers in the Democratic Republic of the Congo, Senegal and Timor-Leste, ranging between $21,000 and $230,000 for a total amount of $658,063.

52. The bulk of UNCDF programme resources continue to go to Africa (see table 6 below). In 2009, 55 per cent of country programme expenditures went to Africa, followed by Asia and the Pacific at 35 per cent. Africa also accounted for the majority of expenditure within UNCDF global initiatives, which in 2009 accounted for a 17.8 per cent share of programme expenditures, up from 9.4 per cent in 2008. This growth in global initiatives was largely a result of the MicroLead programme becoming fully operational in six LDCs, five of which are post-conflict countries. The global programme figure also includes the Gender Equitable Local Development Joint Programme with UNIFEM, joint programmes on micro-insurance

(with ILO) and remittances (with IFAD), and preparations for the Global Forum on Local Development that UNCDF will co-convene with UNDP in Kampala in October 2010.

Table 6

2009 programme expenditures per region and practice area

(in millions of US dollars)

Regions/Themes	Local development	Microfinance	Total
Africa	9.8	5.5	15.3
Asia and Pacific	8.7	1.0	9.7
Arab States	0.4	-	0.4
Latin America	2.7	-	2.7
Global programmes	0.6	6.8	7.4
Regional programmes	3.2	1.8	5.0
Research and development	0.2	0.3	0.5
Knowledge Management	-	0.5	0.5
Total	**25.6**	**15.9**	**41.5**

Source: Financial statements for UNCDF as of 31 December 2009 before final closing of accounts.

V. Strategic directions 2010-2013

53. UNCDF key future challenge is being able to respond effectively to growing LDC demand for its services in local development and microfinance. This challenge implies three central priorities for the period 2010 -2013.

54. *Strengthening UNCDF operations*: Tables 4 and 5 above detail recent UNCDF growth. The level of UNCDF activities has nearly doubled over the past five years. In the last two years alone the number of financial service providers supported by UNCDF has more than doubled. Keeping pace with this demand means that UNCDF must place high priority on maintaining strong and effective operational systems. Project 2010 has already produced an overall framework for strengthening UNCDF operations, including its resource base. Implementing this framework will be a high priority for 2010-2013.

55. *Responding to LDC demand for new types of interventions*: UNCDF is increasingly being asked by programme countries for support in responding to climate change and food security, as well as for new approaches to local development (e.g., increased focus on economic development) and microfinance (e.g., new types of financial services such as micro-insurance; remittances linked directly to savings accounts, and others). Developing new products and approaches relevant to emerging LDC needs will be a second key priority in the coming period.

56. *Strengthening UNCDF partnerships*: As an organization that "paves the way" for others, UNCDF has an impact when its work is scaled up or replicated by larger partners, national Governments or the private sector. UNCDF goes into challenging environments (e.g., rural areas of LDCs; early microfinance interventions in post-conflict countries) in ways that make it easier for others to come in alongside or afterward. Strengthening its key partnerships -- within the United Nations system, with the World Bank and regional development banks, with foundations, with private sources of capital -- is the third major UNCDF priority for the 2010-2013 period.